



Halliburton Company

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Halliburton Company

Profile

Halliburton Company is one of the world's larger and more diversified oil field services and engineering/construction organizations

The oil field services group is a major provider of products and services both onshore and offshore to the exploration and production segments of the petroleum industry

Industrial engineering/construction services are performed for the petroleum industry, public utilities and general industry. Services include the design, construction and maintenance of industrial facilities.

Marine engineering/construction services are performed predominantly for the petroleum industry. These services include the design, fabrication and installation of offshore structures and pipelines.

Approximately three fourths of revenues and about 90 percent of operating income are derived from services to, including construction for, the petroleum industry.

Generally 30 percent of revenues and 40 percent of operating income come from international sales and services.

The Company also is engaged in the property casualty and life insurance businesses.



COVER One of Halliburton Company's greatest strengths is its loyal and dedicated employees. The skills and talents—and the unending efforts—of these employees enabled the Company to surmount a most difficult year in 1985. The men and women whose photographs appear throughout this report are but a few of the 65,000 people who comprise the Halliburton workforce.

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Comparative Highlights

	1985	1984	(Decrease)
	(Dollars in thousands except per share data)		
Income per share before nonrecurring marine charge and extraordinary item	\$ 2 06	\$ 2 87	(28)%
Income per share before extraordinary item	27	2 87	(91)%
Net income (loss) per share	(3 12)	2 87	—
Cash dividends paid per share	1 80	1 80	—
Net revenues	4 778 695	5 445 719	(12)%
Operating income before nonrecurring marine charge	346 903	497 890	(30)%
Operating income	89 073	497 890	(82)%
Nonoperating income net	25 660	32 671	(21)%
Income before nonrecurring marine charge and extraordinary item	223 744	329 595	(32)%
Income before extraordinary item	28 736	329 595	(91)%
Net income (loss)	(339 276)	329 595	—
Cash dividends paid	195 561	206 481	(5)%
Shareholders equity	2 857 854	3 384 191	(16)%
Acquisitions of property plant and equipment	239 062	262 448	(9)%
Depreciation and net book value of fixed assets retired	384 027	396 214	(3)%
Shareholders of record	25 274	25 938	(3)%
Common shares outstanding at year end	108 650 000	108 496 000	—

Quarterly common stock price ranges

(New York Stock Exchange)	First		Second		Third		Fourth	
	High	Low	High	Low	High	Low	High	Low
1985	\$32¼	\$26¼	\$32¼	\$28¼	\$30½	\$24½	\$28½	\$24½
1984	44	32⅝	44	33	36¼	28¾	33	27⅞

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President's Letter

To Our Shareholders

For the fourth consecutive year Halliburton Company had to contend with severely depressed conditions in virtually all of its markets. These conditions are primarily the result of worldwide production of oil and gas in excess of existing demand and the absence of major industrial expansion in the United States—notwithstanding an economic recovery in its fourth year. Lower energy costs have helped many industries but they have badly damaged some segments most notably the oil field services and energy related engineering/construction industries.

Yet I am pleased to be able to report that Halliburton is a stronger more competitive company today than it was at the end of 1984. Of course the results in 1985 do not reflect this. Our consolidated revenues were \$4.8 billion down from \$5.4 billion in 1984, operating income was down 30% to \$346.9 million, and after writing down our investment in marine equipment and providing for the settlement of and actual final payment for the litigation relating to the South Texas Nuclear Project (STNP) we sustained a net loss of \$3.12 per share.

But we accomplished several objectives. Probably the year's most notable achievement was the settlement of the South Texas lawsuit. This litigation which began in 1981 was enormously expensive and consumed the time and energy of many officers and employees for four years. Getting it behind us removes a major financial uncertainty and frees management to concentrate on the job at hand.

The restructuring program which began almost two years ago continued in 1985. We disposed of several smaller units whose businesses were unrelated to our mainstream operations. We also acquired several companies whose services and products complement those of other Halliburton units. The reorganization and reduction in size of Brown & Root's operations continued with some progress becoming apparent as we move into 1986. Still the markets served are eroding at a pace that makes it difficult to adjust as rapidly as necessary.

After several years of effort Halliburton Company succeeded in gaining a foothold in China. Halliburton Services was selected by the government of the People's Republic of China to perform onshore oil field service work beginning in 1986. The selection means that Halliburton Services will become the first foreign oil field service company to work on the Chinese mainland. IMCO Services will supply drilling fluids for this operation.

After several years in the development stage Welex's new Precision Logging System was introduced to the market in early 1985. Testing and perfecting the system continued throughout the year and Welex will market this system aggressively in 1986 with the goal of further penetration into a market with considerable growth potential. In this effort to strive for technical excellence Welex is typical of all Halliburton operating units.

Despite industry conditions Halliburton Company maintained its level of research and development expenditures in 1985. Behind this commitment to quality is the realization that market share based on value can be retained but market share based on price alone is usually lost to the first competitor with a lower bid.

Halliburton units also are investing heavily in the Company's human resources. Thus 1985 was a year in which our operating units redoubled their efforts to upgrade the skills and talents of their people. Our objective is to make Halliburton men and women the best trained workforce in the industry. Before proceeding I should like to express your management's appreciation to our workforce—some 65,000 strong—who tirelessly devoted themselves to their jobs and to the Company and its customers throughout an extremely difficult year.



Thomas H. Cruikshank, president and chief executive officer of Halliburton Company

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Management changes Several of our directors left the board in 1985 and we lost one of our officers as well. Retiring from the board of directors were Thomas J. Feehan, chairman of the board of Brown & Root, Leonard Leon, former president of Welox, and William E. Simon, former Secretary of the Treasury and a Halliburton board member since 1979. Mr. Feehan had 38 years with the Company and became a director in 1977. Mr. Leon was a Halliburton Company employee for 37 years and a board member for 15 years.

One of our officers, Dennis R. Hendrix, who also was a director and a member of the executive committee, left the Company late in the year to become president and chief operating officer of Texas Eastern Corporation.

Financial position Your Company's financial position remains strong even after cash payments of \$578.2 million made late in the year to fund the STNP settlement. Our cash and marketable securities, net of commercial paper borrowings outstanding, totaled \$522.7 million at year end. In 1986 we anticipate tax refunds of \$234.0 million from the STNP settlement, including \$195.7 million received in early 1986.

Notwithstanding the reduced levels of activity in our major lines of business, we are continuing to generate cash well in excess of operating requirements.

Our initial capital budget for 1986 has been established at \$215.6 million. This is 24% below the final budget set for 1985.

Summary When the present downturn in the energy business began to surface several years ago, most observers believed that it was a natural reaction to the hectic, hyperactive period which had preceded it. But it has turned out to be a deeper, longer lasting recession for the industry than most imagined. The OPEC cartel lost its control over production and prices, conservation cut far deeper into demand than was forecast, and new sources of petroleum coming on stream have exacerbated supply/demand problems.

It is taking much longer than we would have preferred for the energy business to adjust to these conditions. Fierce competition and price cutting are rampant in almost every market we serve—whether it be in oil field services or industrial and marine engineering/construction.

I would like to tell you that these problems will all end quickly and that we will soon resume a more profitable

path of progress. But the near term picture is quite uncertain. No one knows just when energy prices will stabilize. And the future of national tax policy too is unclear at this point. There does seem, however, to be a growing understanding that this is no time to add to the burdens of the oil industry. But so long as such uncertainties remain unresolved, they are extremely detrimental to the exploration and development activities on which your Company depends to such a great extent.

Halliburton Company is in excellent shape to weather this period of uncertainty and to position itself for the day when the course of events will permit us to resume a more normal pattern of growth. We look forward to that time, knowing that in the interim we shall continue to make the most of our markets as they exist and to look for new opportunities that will contribute to our long term growth.

Respectfully submitted,



Thomas H. Cruikshank
President and
Chief Executive Officer

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Operational Review

Oil Field Services and Products



Weak oil and gas prices slackening domestic drilling activity and intense competition combined to make 1985 a difficult year for the oil field services and products group.

Worldwide revenues were off only 8% as international revenues held steady. Operating income dropped 30%. The decrease stemmed

almost entirely from lower domestic earnings as domestic results trailed those of 1984 throughout the year. Operating income from international activities increased and exceeded domestic income for the first time.

Because of falling petroleum prices, weak demand for natural gas and the threat of punitive tax legislation, the domestic exploration industry sharply curtailed its activities in 1985. The average number of drilling rigs working in the U.S. fell 19% from 2,431 to 1,980.

The rig count outside the U.S. rose slightly due mostly to increased activity in Canada, but this was partially offset by decreases in Latin America where economic conditions hampered activities.

The oil field services group worked hard to counteract the downward pressures. The domestic workforce was reduced and further attention was given to other cost reduction programs that began several years ago. B. G. Taylor, executive vice president of oil field services, noted that "No change was made in one of the group's primary goals, which is to continually maintain and improve the quality of services and products."

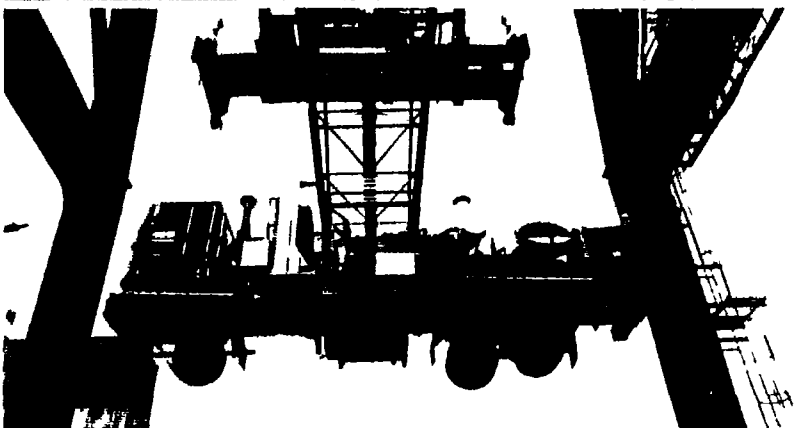
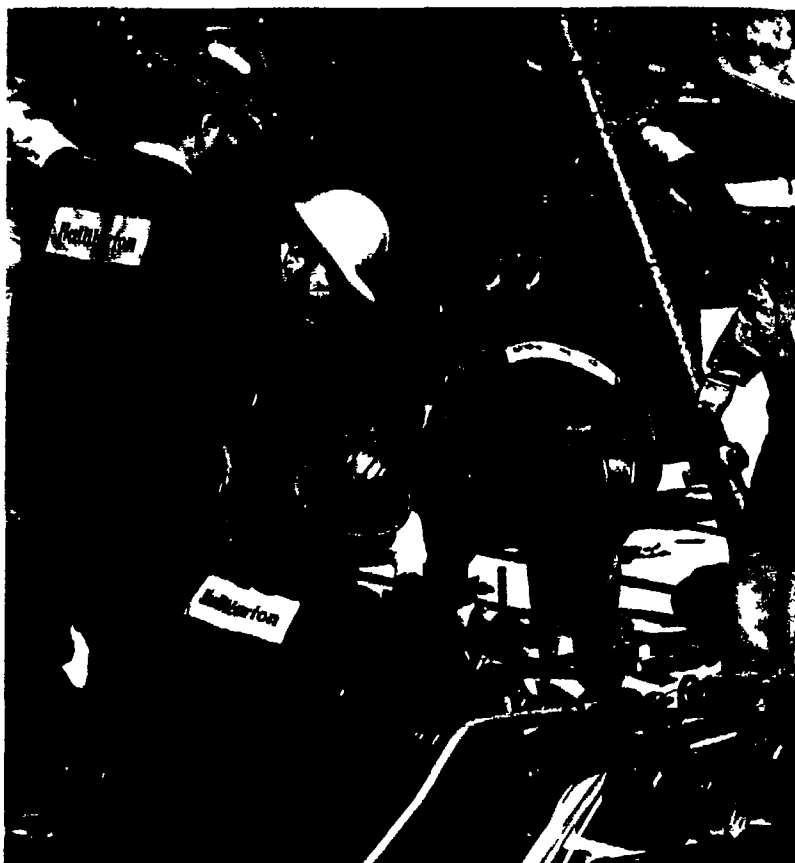
To help accomplish this goal, the oil field services group continued to stress training at every level. Instruction ranged from individual on-the-job direction to formal classroom sessions.

Many employees from the various units, as well as personnel from customer organizations, attended classes at the Halliburton Energy Institute at Duncan, Oklahoma. This school, offering state-of-the-art studies in cementing techniques, modern well completion methods and other subjects, is considered "the university of the petroleum industry."

Commitments to improved product quality were met by an increase in expenditures for research and development despite the added pressures on operating income. Almost all oil field units noted solid technological gains during the year to further enhance their competitive positions.

Oil Field Services and Products
(\$ in millions)

	Revenues	Operating Income	Operating Ratio
1985	\$2,925.1	\$ 335.3	11.5%
1984	3,176.3	478.6	15.1



TOP: Oil field workers from the People's Republic of China are taught fracturing procedures by Halliburton Services personnel.

BOTTOM: In 1986 Halliburton will become the first U.S. company to perform an oil field service job on mainland China. Here, one of the trucks which will be used in this work goes aboard a freighter at Houston.

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Halliburton Services

Halliburton Services had a reasonably good year considering the depressed domestic market and worldwide competitive pressures. Market share held relatively stable both in the U.S. and overseas.

Domestic operations Revenues and operating income resumed a downward course in 1985 after temporarily turning upward in 1984. All of the well known factors — falling oil and gas prices, a declining rig count and thin profit margins — took their toll.

Employment dropped and some equipment was stacked to adjust to the lower demand. However, productivity and equipment utilization held up remarkably well.

Although lower, the number of domestic service jobs held fairly steady throughout the year. The major problem was that operating margins were hard hit by price discounting which grew progressively worse.

International operations One of 1985's significant developments came in the third quarter when Halliburton Services announced it had been selected as the first oil field service company to conduct operations onshore in the People's Republic of China (PRC).

The announcement climaxes several years of effort to establish a foothold in the PRC and opens what is believed to be a significant new market for Halliburton. Much of the preparation for this work, which is scheduled to begin in mid 1986, took place at Halliburton Services headquarters at Duncan, Oklahoma. This included training of Chinese engineers and technicians, large volume sales of truck-mounted service equipment, and the signing of a 10-year agreement covering manufacturing of equipment on the Chinese mainland. At year end Halliburton Ltd. was preparing to cement an 18,000 foot exploratory well in China's northwestern Szechwan province.

Another highlight of the year was the introduction of the *Skandi Fjord*, the world's largest and most sophisticated stimulation vessel, for service in the North Sea. Outfitting this new flagship of the Halliburton fleet with its specialized high pressure stimulation equipment represented the single largest engineering project ever undertaken at Duncan.

Research Much of Halliburton Services' research effort in 1985 was devoted to collecting and manipulating the increasing amounts of information now being generated during downhole treatments. This data gathering



At the Halliburton Energy Institute, client and employee training groups learn the latest in oil field production methods. The class in these photos is studying modern well completion techniques.

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program included more detailed analysis of the zones being stimulated tested or treated in other ways more and better vectors for transmitting the information to the surface and once at the surface the ability to interpret and analyze a treatment in a more comprehensive manner

This new level of data availability resulted in the introduction of two products during the year These were the Harvest system a software package that extends the utility of a formation test and the PDR system a portable recording and interpretation system that records digital data on small cementing jobs where it would be too expensive to use Halliburton's CompuVan

A major technical advancement is the HT 2000 pump the latest in a long line of pumps designed and built by Halliburton The prototype HT 2000 exceeded original design criteria in field tests during the year

For more than 50 years Halliburton has led in researching the displacement mechanics of cementing jobs This work continued in 1985 as the company together with many of the world's leading oil producers carried on cooperative studies to investigate such factors as flow regimes in permeable and nonpermeable formations From these studies will come greater customer satisfaction and improved market penetration

Research continued on projects involving work in such hostile environments as deep holes geothermal wells now being used or studied as an alternative source of energy in many countries and extended reach drilling

Pilot studies were underway in the search for improved technology to produce the vast deposits of oil sands in Canada's Alberta province These experiments involve massive formation fracturing and other enhanced recovery methods in joint projects with several major oil operators

Otis Engineering

Otis Engineering's revenues were moderately lower in 1985 but operating income was slightly higher The decline in revenues can be traced largely to domestic operations international revenues were roughly at 1984 levels The manufacturing backlog at year end was higher than at the beginning of the year

Otis management sought to increase its market penetration by producing new and superior products for



A lab technician at Halliburton Services research center at Duncan Oklahoma uses state of the art electronic equipment to study samples of oil field cements for quality and consistency

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less money Otis also worked to expand its markets through more aggressive pricing

To protect its market position Otis consistently has strived to be a low cost producer Design and manufacturing efficiency has improved steadily through greater use of computer technology Inventories have been reduced significantly and manufacturing scrap costs lowered

While keeping costs and prices down Otis has maintained its technical leadership Development of products and services to meet specific customer requirements has been enhanced through increased contact between Otis research and engineering personnel with their counterparts on customer staffs

This cooperation has paid off in such products as the Series 10™ subsurface safety valve and the Interlock™ packer Each of these products because of recognized excellence under operating conditions has enjoyed notable acceptance by the marketplace

Otis continues to seek new markets An example is development of the Electro Hydraulic Actuator which has created an exclusive niche for the company in deepwater subsea completions of oil and gas wells

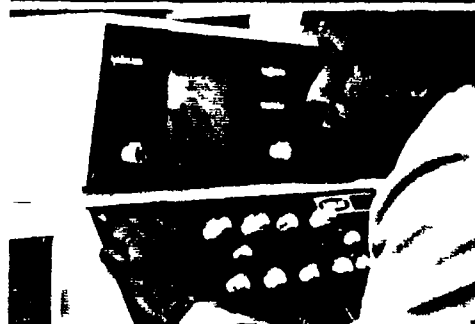
In late 1985 the company installed a deep well simulation facility at its Carrollton Texas plant to replicate temperatures and pressures found in difficult drilling conditions The resulting studies will enable Otis to maintain its leadership in the development of elastomers and metals technology

Through joint efforts with other Halliburton Company operating units Otis has positioned itself for a larger share of the well testing and reservoir analysis market A new company TRA (Testing and Reservoir Analysis) has been formed to combine the well testing and reservoir capabilities of Halliburton Services with Otis' broad array of related services This group has had a substantial impact on the domestic Gulf Coast area where its marketing effort currently is focused

IMCO Services

Although lower operating results for IMCO Services in 1985 were not as bad as would be indicated by the competitive pressures and generally adverse market conditions during the year

IMCO was able to maintain its position as a leading supplier of drilling workover and completion fluids The company bases its strength on a technical program which over the years has emphasized superior performance through specialized services product differentiation and skilled versatile people



TOP At Otis Engineering's heat treating shop in Carrollton Texas a worker prepares a tray of downhole tools for heat treating to a client's specific requirements

BELOW Using a scanning electron microscope to detect hidden flaws an Otis metallurgist seeks clues that will enable the company to produce stronger metals and higher quality products

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One of IMCO's technological strengths is in developing environmentally safe drilling fluids. Stricter government regulations and public concerns regarding environmental quality have brought intense pressures upon oil and gas operators and their drilling fluids suppliers. IMCO has responded by continuing to

provide assistance to its customers through documentation of the environmental compatibility of its products which can be used to prove compliance with environmental requirements.

The company's environmental laboratory, with its highly specialized equipment, is a major element in a research program focused on the production of better, safer products. IMCO is able to develop and test new drilling fluids in its own laboratory, giving it distinct advantages over many of its competitors.

The company's objectives, however, extend beyond product excellence. Historically, IMCO has been a leader in training its people to better serve the industry. In 1985, accelerated emphasis was placed on a recruitment and development program for graduate engineers and scientists with chemistry and physics degrees.

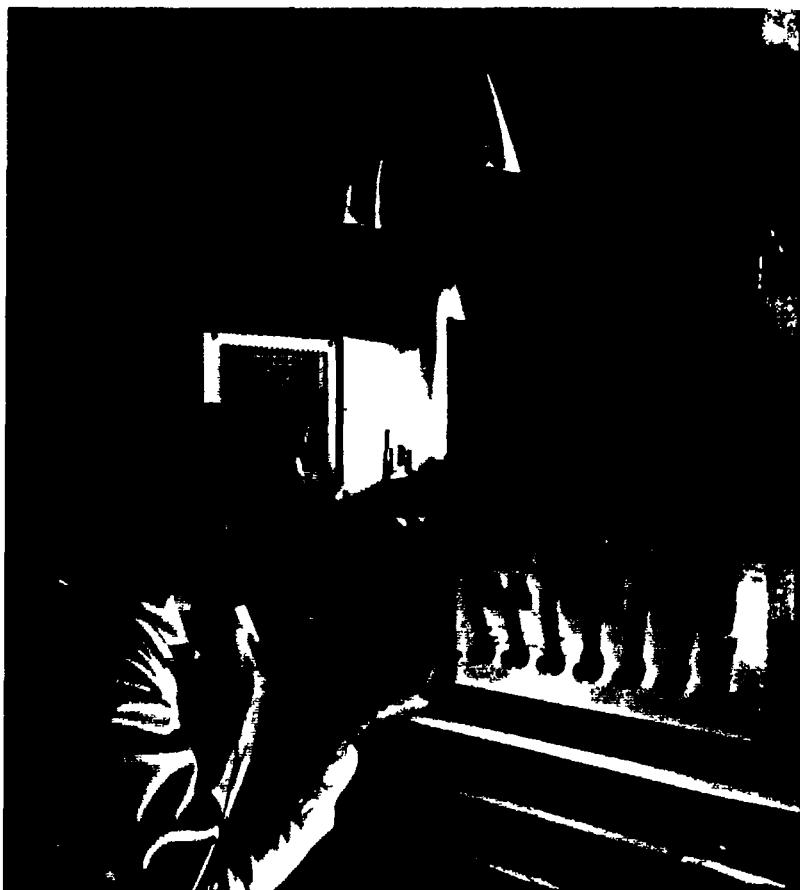
For experienced personnel, the company utilizes periodic refresher mud technology schools focusing on new developments and changing customer needs. All of IMCO's fluids technologists are trained to competently apply the complex chemical and physical theories of mud technology.

Although 1985 was primarily a year of consolidation, IMCO established an offshore facility at Port Mansfield, Texas, giving it 14 such centers on the Texas and Louisiana Gulf Coasts. Overseas, the company improved its barite capabilities by opening a grinding mill in Oman to serve the Arabian Gulf and East Africa.

Welex

Welex revenues were lower in 1985 and this unit continued to operate at a loss. Results reflected both depressed industry conditions and the costs of introducing the new Precision Logging System (PLS) into field use.

Welex increased the number of service jobs it performed over the previous year. But heavy discounting put downward pressure on operating ratios. Margins were especially poor in shallow open hole logging and the less



TOP A scientist in the Otis polymeric laboratory uses an atomic absorption spectrophotometer to determine the metallic components of a tool part.

BOTTOM Over the years IMCO has made extensive use of training programs to better prepare its people to serve the drilling fluids industry. Here, several of the company's fluids technologists examine mud samples at a wellsite near Liberty, Texas.

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sophisticated cased hole services where competition was particularly intense. To counteract this, Welex is beginning to compete more vigorously in the deeper, more technically demanding segments of the market where margins are significantly higher.

Welex introduced its PLS system with its state of the art open hole logging capabilities in early 1985. By year end, Welex had logged more than 700 wells with PLS and had placed 31 units in service. The company expects to approximately double the number of units in field use by the end of 1986. Industry acceptance of the new digital interactive logging system has been exceptional, and Welex hopes to make further inroads into a market with major growth potential.

Welex also upgraded its cased hole logging fleet last year, nearly doubling the number of ComTech (computerized completion technology) units. ComTech is a digital cased hole logging system that provides operators with a complete range of logging and perforating services for preparing their wells for oil and gas production. Many of the same services were previously offered individually. ComTech ties them together in a unified package.

Halliburton Resource Management (HRM)

HRM revenues were higher in 1985, but operating income was lower due to the write off of an investment made in prior years. The company continued to increase rentals of gas compression equipment and is now a major factor in this business. The market for such equipment is growing because of uncertainties over gas prices. Many producers are now electing to rent compression equipment rather than buy it. HRM acquired some 250 additional compressors in 1985 when it purchased most of the assets of Travis Compression Services.

In 1986, the company plans to expand its operations into Canada and will open offices in several western Canadian oil centers.

Vann Systems

Vann Systems is Halliburton Company's newest operating unit. The company was purchased in the third quarter of 1985 from GEO International Corporation where it was known as GEO Vann. Vann Systems brings important new technical capabilities to the oil field services and products group, most notably its expertise in tubing conveyed well completions. Tubing conveyed systems enable operators to perform both perforating and production testing on an oil or gas well with a single run downhole of one tool string, saving time and money.



At Welex in Houston, a tool assembly technician works on components of the company's new Precision Logging System. The system, which was introduced into service in early 1985, had been used to log more than 700 wells by year end.

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Engineering/Construction Services



Brown & Root continued to feel the impact of shrinking worldwide industrial and marine engineering/construction markets during 1985.

Total revenues from engineering/construction services were down 18%. Operating income declined 40% not including a \$258 million charge against

marine operations made in June. (See Note 5 to the financial statements on page 23.)

What Brown & Root must continue to do, T. Louis Austin Jr. president and chief executive officer told Brownbuilders, is make the size of our operations fit existing markets. To accomplish this, the company further trimmed overhead costs and consolidated many departments and functions.

Ranking almost equally with the emphasis on overhead reduction has been a strong emphasis on marketing and quality control.

Individual departmental marketing efforts have been restructured into a more cohesive corporate business development effort. A high priority has been placed on aligning Brown & Root's land and marine capabilities with new, swiftly changing business opportunities and selling those skills to clients.

Perhaps the most dramatic move toward restructuring came during the latter half of 1985 when all U.S.-based engineering operations, both land and marine, were combined under central management.

This action is resulting in more efficient use of manpower and in lower overhead expenses. Thus, the consolidation is not only reducing the cost of services to clients, but it is raising the level of quality as well. A further boost to quality improvement came from Brown & Root's extensive training program for field employees.

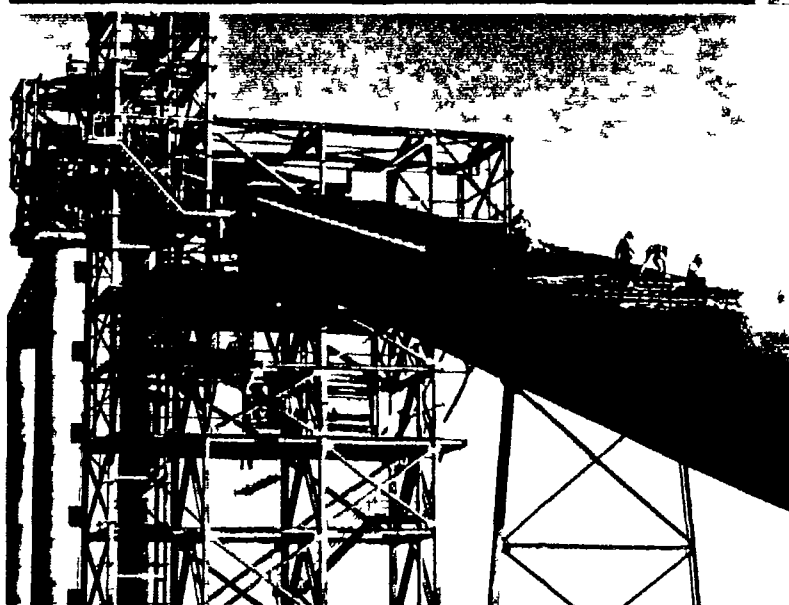
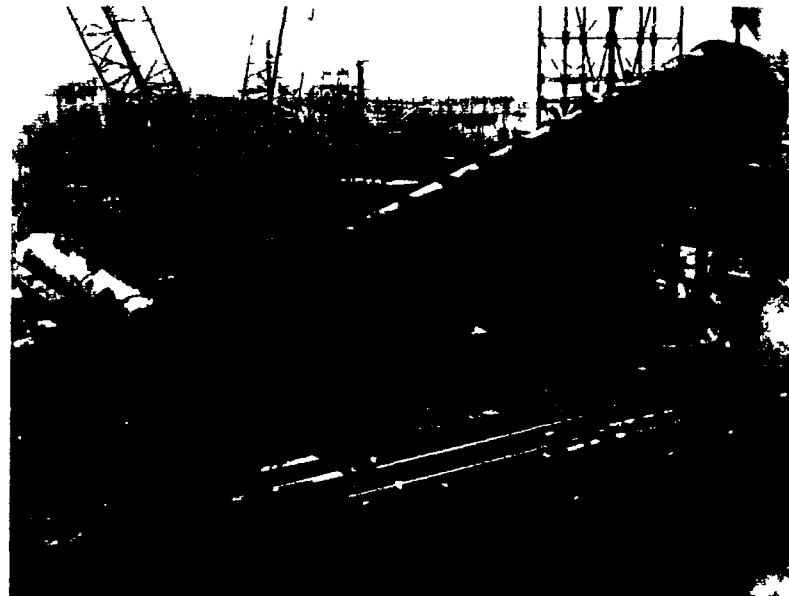
Industrial Engineering/Construction Services

For the most part, industrial engineering/construction's traditional markets were either flat or severely depressed in 1985. Declining demand for large-scale projects shrank revenues by 1%, however, operating income rose, reflecting a reduction in litigation expenses relating to the South Texas Nuclear Project and the absence of miscellaneous charges made in the fourth quarter of 1984.

Industrial Engineering/Construction Services

(\$ in millions)

	Revenues	Operating Income	Operating Ratio
1985	\$1,311.3	\$26.7	2.0%
1984	1,574.3	8.3	0.5



TOP Brownbuilders raise a 750-ton, high-pressure catalyst reactor into position at Atlantic Richfield Company's Carson, California, refinery. The reactor is a major component of a hydrodesulfurization unit that Brown & Root is installing at the refinery, only a few miles from downtown Los Angeles.

BOTTOM Brown & Root was working on a coal-fired electric generating unit for Tucson Electric & Power in 1985. Workers are shown constructing the coal conveyor system at the plant, which is located at Springerville in eastern Arizona.

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Maintenance Benefiting from the sluggish industrial economy the maintenance division experienced strong demand for its services. As plant operators seek to cut costs they have turned increasingly to outside contractors such as Brown & Root to provide services ranging from occasional assistance to total maintenance. The division believes this trend should continue.

Traditional work areas along the Gulf Coast will be augmented to include markets on the West Coast in southeastern and northeastern states and in Alaska.

Petroleum and Chemical The demand for services of the petroleum and chemical division declined as economic conditions challenged the viability of many projects. This has resulted in intensified competition for the remaining jobs.

A growing trend among oil and gas producers toward modular construction of production and processing facilities is creating new business opportunities. Entire plants are built in sections or modules shipped to the site, assembled and placed into operation. This technique is being used when equipment must be sent to Arctic regions or other remote locations where on-site construction is not feasible.

Brown & Root is constructing modules which will house all of the oil and gas production and gas processing facilities for Standard Oil Production Company's Endicott field. When the production of oil begins in late 1987, Standard Oil will have invested more than \$1 billion in the field, which is in the Beaufort Sea about 20 miles northeast of the Prudhoe Bay oil field on Alaska's North Slope. The first shipment of these modules from Brown & Root's construction site at New Iberia, Louisiana, is scheduled for mid 1986.

Power In 1985 the power division increasingly concentrated on new technologies such as refuse burning power plants, geothermal units, cogeneration projects and other alternate energy sources.

Contracts for two refuse burning power plants in Georgia and in Utah were signed during the year with Katy Industries, Inc.

Although many electric utility companies are reducing construction and capital expenditure programs, opportunities still exist for the power division. Some 200 U.S. electric generating plants will exhaust their designed service lives during the next five years. These units are expected to be candidates for major retrofit work or replacement with new plants.



TOP A major project begun in 1985 was one for Standard Oil Production Company at New Iberia, Louisiana. Brown & Root is constructing modules which will house all of the oil and gas production and gas processing equipment for Standard Oil's Endicott field project off the North Slope of Alaska.

BOTTOM Brownbuilders review blueprints of the Endicott modules. When completed, these facilities — which are as tall as five or six story office buildings — will be placed on barges and towed to Alaska, where they will be placed into use.

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Manufacturing and Process Industries/Heavy Civil and Mining Construction Fierce competition continues in all markets served by this division and few new major projects are anticipated. Projects and profit margins are expected to be small.

Added emphasis has been placed on highway construction and paving which is expected to show continued growth as much of the nation's highway system is improved or replaced. Two significant contracts were received in 1985 from the Texas Department of Highways and Public Transportation.

One of the division's mainstay markets, the pulp and paper industry, continues strong with 1986 capital spending projected to grow by 7.5% over 1985. Engineering and construction continued at the Georgia Pacific plant at Port Hudson, Louisiana, on the installation of a paper making machine for fine quality papers. A major contract for both engineering and construction was received in late 1985 for a \$200 million conversion project at Champion International's kraft mill near Pensacola, Florida. Champion will convert its mill from production of lower quality brown papers to high quality writing and printing papers. Completion is projected for the first quarter of 1987. The peak workforce on this project is expected to be about 1,600 people.

NUS Corporation Revenues for NUS were about even with 1984, but operating income declined primarily because of narrowing margins on services provided to the nuclear utility industry.

The company continued its work as prime contractor for the Environmental Protection Agency investigating hazardous waste sites in states east of the Mississippi and Ohio Rivers. This work is being carried out under the Superfund created several years ago by Congress.

Training related consulting services continued to gain in importance, reflecting the increasing emphasis being given by many industries to improved health and safety procedures in the workplace. These markets, which began with training for personnel in the utility industry, have now been broadened to include the chemical, pulp and paper, refinery, hazardous waste and manufacturing industries.



Plant operators seeking to cut overhead costs have turned increasingly to Brown & Root's maintenance services division for support ranging from occasional assistance to full time maintenance. On one project at a chemical plant on the Texas Gulf Coast, two Brown & Root workers replace a union on a water line.

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Marine Engineering/Construction Services

Reduced activity in Europe Africa and the Far East caused Brown & Root marine revenues to decline 22% from 1984 levels. However Eastern Hemisphere operations except in the Far East were profitable as were operations in Mexico domestic pipeline construction and underwater services.

Losses were incurred in remaining domestic operations particularly in the areas of offshore structures and engineering.

Nonrecurring write offs primarily relating to marine construction vessels were taken in a move to more accurately reflect asset values.

Projects in 1985 Major domestic projects during the year included engineering services to Exxon U S A for the facilities portion of the Santa Ynez field development offshore California and installation of platform Irene for Unocal also off the California coast.

Several large engineering/construction projects continued or began in the Eastern Hemisphere including the Southern gas field and Morecambe Bay developments in the North Sea.

Structural changes The marine group underwent major structural changes in 1985. Most of these were dictated by the changing character of the industry itself.

Only a decade ago the worldwide offshore industry consisted of a few large multinational contractors. But within recent years many non U S contractors operating on a subsidized basis have entered the market changing both the competitive and cost characteristics of the industry.

Further nationalism in many operating areas has tended to favor locally owned and based operations. These factors coupled with a general restructuring of the petroleum industry have changed — perhaps permanently — the nature of the marine engineering/construction business and necessitated many wrenching adjustments.

The marine division enters 1986 with sharply reduced fixed costs and overhead expenses. Assets and personnel will continue to be deployed to meet changing conditions and markets. Over the next few years the division expects to emerge as a more technically oriented less asset intensive contractor. Equipment write offs overhead reductions and small scale but strategically placed capital investments have set the stage for improving competitive performance.

Marine Engineering/Construction Services

(\$ in millions)

	Revenues	Operating Income (Loss)	Operating Ratio
1985	\$542.3	\$(15.1)*	(2.8)%
1984	695.1	11.0	1.6

*Excludes nonrecurring charge of \$257.8 million



TOP At year end Brown & Root was working on the latest of several projects for Amoco Corporation at its Texas City Texas refinery

BOTTOM This airport paving job in southwest Houston is typical of many such projects completed by Brown & Root in 1985. Highway construction and paving are expected to be one of the company's stronger near term markets as much of the nation's road system is improved or replaced.

Insurance Services



Higher revenues were derived from insurance services in 1985. But combined net income at \$36.2 million was down 13% as increased underwriting losses more than offset the moderate gain in investment income.

Highlands Insurance

Highlands fared substantially better than many of its competitors. In general, property and casualty insurers suffered their worst year ever due to the buildup of underpriced business in recent years.

Highlands premiums written in 1985 increased 40% over 1984, as prices for insurance were raised to levels more in line with actual costs. This trend should continue into 1986, ultimately affording higher levels of profitability as these premiums are earned over the life of the policies.

Coverages are written mainly for commercial customers. The company provides workers compensation, general liability, auto, property, marine and surety bond coverage. Brokerage services are also provided, as are claim adjustment services, safety inspections and counseling for self-insured customers.

Life Insurance Company of the Southwest

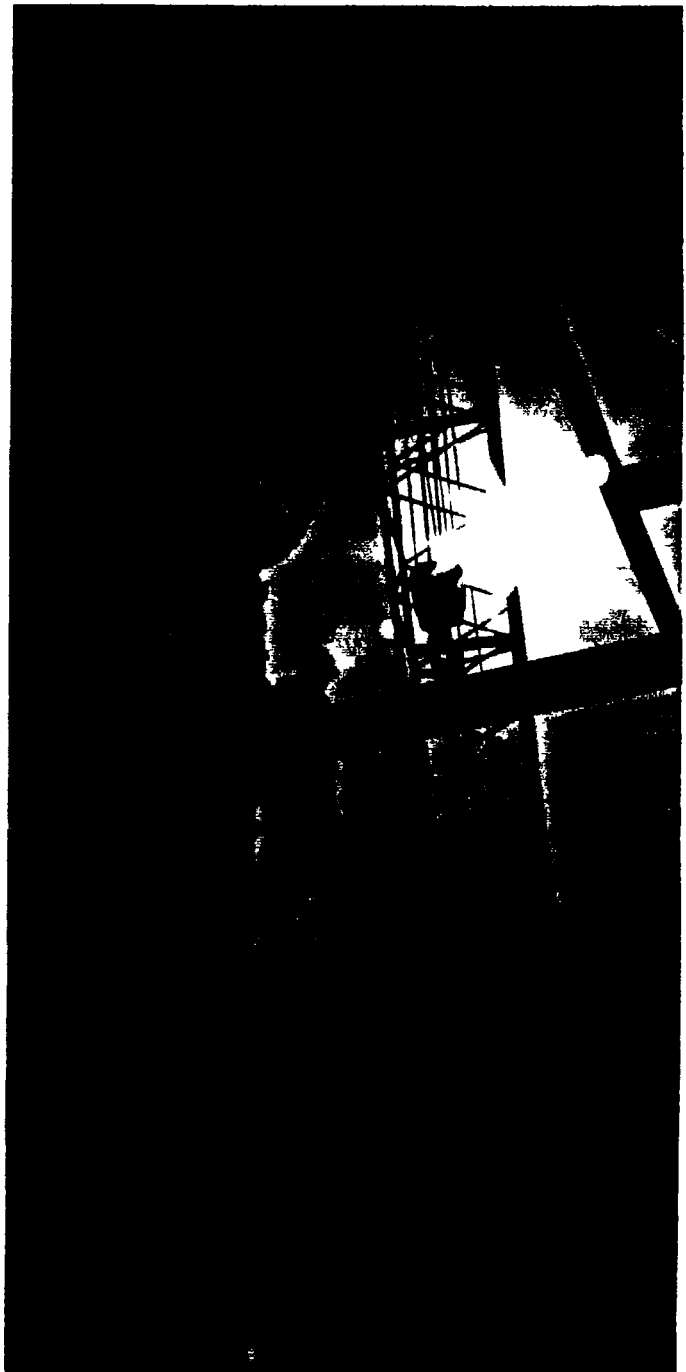
Life Insurance Company of the Southwest pursued several new objectives during the year. The emphasis was placed on the development and marketing of interest-sensitive products, such as single payment plans, annuities and universal life insurance. Because these products have very narrow margins of profit but create considerably more funds for investment, Life of the Southwest is employing several new investment strategies to increase income. One of these is lending on smaller commercial real estate projects, an often neglected segment of the market.

Another growing market for the company is group insurance — especially in the health care field. Various cost containment features being incorporated into the group medical plans help to make rates more stable and predictable and consequently more profitable. Life of the Southwest is very active in this approach to health care and is working closely with Health Economics Corporation, a new subsidiary of Halliburton Company, to provide competitive health care coverage for groups of any size.

Insurance Services

(\$ in millions)

	Revenues	Net Income
1985	\$294.7	\$36.2
1984	210.2	41.6



This heavy industrial project is typical of those on which Highlands Insurance provides specialized coverages such as worker compensation and general liability insurance.

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Financial Review

Selected Financial Data

	1985	1984	1983	1982	1981
	(In millions except per share data)				
Income per share before nonrecurring marine charge and extraordinary items	\$ 2 06	\$ 2 87	\$ 2 66	\$ 4 34	\$ 5 72
Income per share before extraordinary items	27	2 87	2 66	4 34	5 72
Net income (loss) per share	(3 12)	2 87	2 33	4 21	5 72
Cash dividends paid per share	1 80	1 80	1 65	1 60	1 30
Net revenues	4 778 7	5 445 7	5 522 2	7 257 3	8 508 1
Income before nonrecurring marine charge and extraordinary items	223 7	329 6	314 8	511 6	674 3
Income before extraordinary items	28 7	329 6	314 8	511 6	674 3
Net income (loss)	(339 3)	329 6	275 8	496 8	674 3
Total assets	4 662 0	5 352 3	5 833 8	5 581 5	5 579 6
Long term debt less current maturities	447 7	480 2	730 2	745 3	741 6

Management's Discussion and Analysis of Results of Operations and Financial Condition

1985 Compared to 1984

RESULTS OF OPERATIONS

Two nonrecurring charges severely impacted financial results for 1985. The nonrecurring charges (after tax benefits) were \$195.0 million or \$1.79 per share for a write-down of marine construction equipment and related investments (see Note 5 to the financial statements on page 23) and \$368.0 million or \$3.39 per share for the settlement of the South Texas Nuclear Project (STNP) litigation (see Note 6 to the financial statements on page 23). These two charges totaling \$563.0 million caused the Company to have a net loss for the year of \$339.3 million or \$3.12 per share.

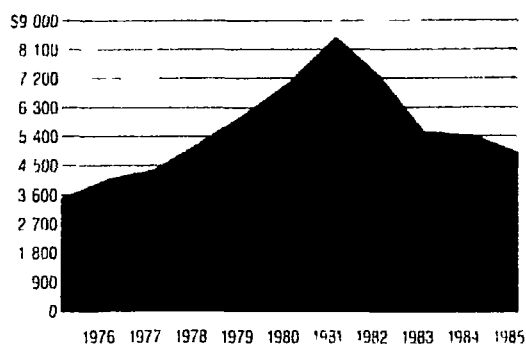
Without these charges, net income for 1985 would have totaled \$223.7 million, \$2.06 per share, as compared with \$329.6 million or \$2.87 per share for 1984. Excluding the

\$257.8 million (before tax benefits) charge against marine operations, operating income was down 30% to \$346.9 million. Consolidated revenues were \$4.8 billion, a decline of 12%. These lower results reflected the decline in energy related operations in the United States and accompanying pricing pressures.

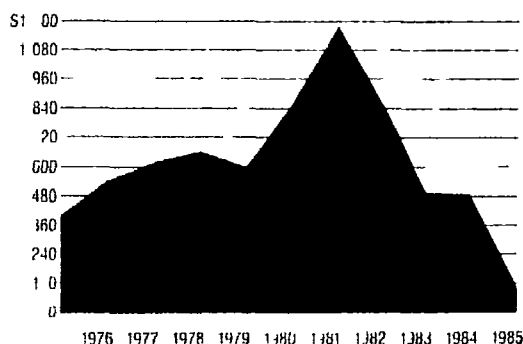
Interest income was \$8.9 million higher than interest expense, an improvement of \$13.3 million from last year when interest expense exceeded interest income. Other nonoperating income was \$20.3 million lower primarily because a gain of \$20.8 million was realized in 1984 from the early extinguishment of long term debt.

Revenues from oil field services and products declined 8% to \$2.9 billion. Operating income of \$335.3 million from these activities was 30% lower. In 1985, the average number of active drilling rigs in the United States was down 19% and there was intense competition for the re-

Revenues (in millions)



Operating Income (in millions)



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duced work. Because of this, results from domestic operations trailed comparable 1984 periods throughout the year. International results for 1985 slightly exceeded those of 1984, and for the first time, operating income from international oil field activities was higher than comparable income from domestic operations. Foreign exchange losses were \$19.9 million in 1985 versus a small gain in the previous year.

Industrial engineering/construction revenues declined 17% to \$1.3 billion. Operating income was \$26.7 million compared to \$8.3 million in 1984. Contributing to the improvement was a reduction in STNP litigation expenses and the absence of miscellaneous charges made in the 1984 fourth quarter.

Revenues from marine engineering/construction services declined 22% to \$542.3 million. Excluding the non-recurring marine charge reported above, there was an operating loss of \$15.1 million for the year versus operating income of \$11.0 million in 1984.

Combined net income from insurance services declined 13% to \$36.2 million, as increased underwriting losses more than offset the moderate gain in investment income.

FINANCIAL CONDITION

Working capital decreased \$316.3 million to \$1.3 billion, and the current ratio was 2.1 to 1. Year-end cash and marketable securities totaled \$622.7 million, a decrease of \$423.9 million during 1985. The decrease in cash and marketable securities resulted from payments in late December of \$578.2 million to fund the STNP litigation settlements. Receivables were \$214.9 million lower, while inventories declined \$23.0 million. Total current assets were down \$427.8 million.

Capital expenditures for property, plant, and equipment totaled \$239.1 million, including outlays of \$198.7 million for the oil field services group. Depreciation plus net book value of retired assets totaled \$384.0 million, down 3% from \$396.2 million for the prior year. Funds required to complete capital assets in progress at year-end plus the initial 1986 approved capital budget totaled \$284.1 million.

Long-term debt was \$477.4 million (including current

maturities of \$29.8 million) at year-end, representing 14% of the Company's total capitalization versus 15% at the end of 1984. Short-term debt was \$139.2 million as compared to \$50.9 million at the end of 1984.

Shareholders' equity decreased \$526.3 million to \$2.9 billion, and book value per share decreased from \$31.19 to \$26.30. Total cash dividends paid during 1985 were \$1.80 per share, the same as in 1984. The return on average shareholders' equity was a negative 10.9% as compared to a positive return of 9.3% for the prior year.

The Company continues to depend principally on internally generated funds as its major source of liquidity. In 1986, the Company expects to receive tax refunds of \$234.0 million relating to the STNP settlement. Cash flow from operations was \$573.5 million as compared to \$712.3 million for 1984.

1984 Compared to 1983

RESULTS OF OPERATIONS

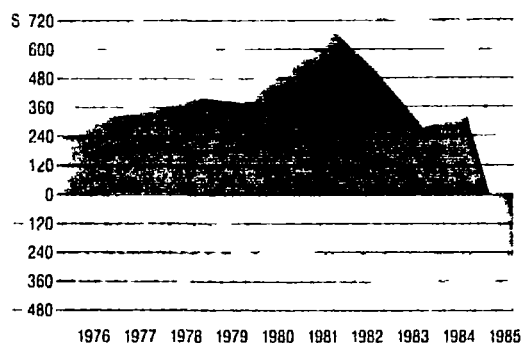
The financial results for 1984 reflect an improvement in oil field service operations, particularly in the United States, and deterioration in activities of the industrial and marine engineering/construction groups.

Income was reduced by significant litigation expenses related to the STNP and by a number of adjustments made in the fourth quarter, which are discussed in the following paragraphs.

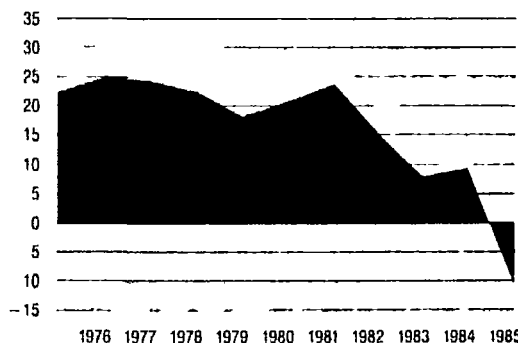
Consolidated revenues and operating income for 1984 were \$5.4 billion and \$497.9 million, respectively. Both amounts reflected a 1% decline from 1983. The decline in revenues for 1984 was due to lower operating levels for engineering/construction services. This decline more than offset volume gains made by the oil field services group. Price discounting and competitive bidding held 1984 prices to about 1983 levels.

Nonoperating income was \$38.2 million higher, reflecting an increase of \$20.8 million in interest income and a gain of \$20.8 million from the early extinguishment of long-term debt (versus \$5.0 million in 1983). Interest expense was \$6.0 million higher, principally due to interest accruals.

Net Income (millions)



Return on Shareholders' Equity



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related to tax contingencies

Net income was \$329.6 million, 5% higher than 1983 income of \$314.8 million before an extraordinary charge relating to certain marine antitrust litigation. Net income per share was \$2.87 compared with \$2.33 (\$2.66 before the extraordinary charge) in 1983.

Effective income tax rates, particularly in the fourth quarter, were higher due to accruals for potential tax liabilities applicable to prior years and accruals for taxes on undistributed earnings of foreign subsidiaries. These provisions were partially offset by the recoupment of deferred taxes previously accrued under the recently terminated domestic international sales corporation (DISC) program.

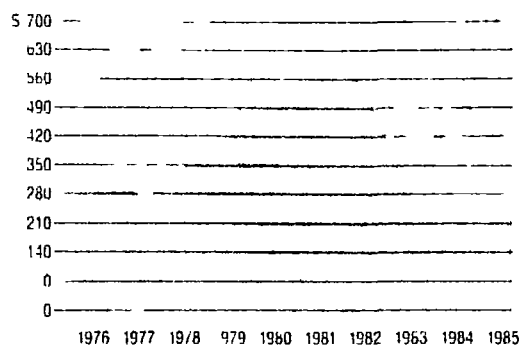
Revenues from oil field services and products increased 11% in 1984 to \$3.2 billion. Operating income from these activities was up 19% to \$478.6 million. The gains came from domestic operations. International revenues approximated those of 1983, while profit margins were down slightly from the prior year. However, international results for the fourth quarter exceeded those of the same prior year quarter.

Industrial engineering/construction revenues declined 14% to \$1.6 billion and operating income was down 80% to \$8.3 million. Earnings of this group were heavily impacted by STNP litigation expenses, the recognition of losses on noncancelable leases for unused office facilities and accruals for certain employee benefit costs applicable to prior years. A significant portion of these charges were recognized in the fourth quarter, resulting in an operating loss for the period.

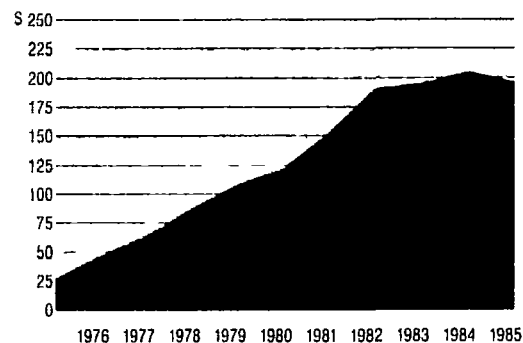
Revenues from marine engineering/construction services decreased 16% to \$695.1 million. Operating income was \$11.0 million, significantly below the prior year. The North Sea and Middle East areas remained profitable during 1984, although profit margins were lower than for 1983. Most of the loss recorded by the marine group in the final quarter of 1984 resulted from a write-off of obsolete marine equipment.

Combined net income from insurance services declined 5% to \$41.6 million, as increased underwriting losses more than offset the gain in investment income.

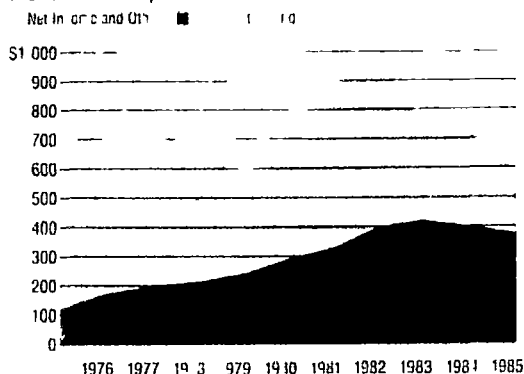
Capital Expenditures



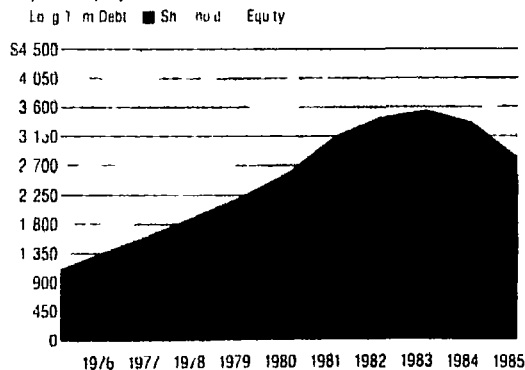
Cash Dividends Paid (in millions)



Cash Flow From Operations



Capital Employed (in millions)



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Responsibility for Financial Reporting

Halliburton Company has prepared the accompanying consolidated financial statements in conformity with generally accepted accounting principles consistently applied during the periods. The Company is responsible for the presentation and fairness of financial information contained therein. In preparing the financial statements, it is necessary to make informed estimates and judgments based on available information.

The Company maintains a system of internal accounting controls which includes organizational arrangements that provide an appropriate division of responsibility. The system is designed to provide reasonable assurance that transactions of the Company are executed in accordance with management's general or specific authorizations, that the books and records fairly reflect in reasonable detail the transactions of the Company and that the Company's assets are safeguarded. The system is reviewed regularly to ensure its effectiveness and is supported by written policies and procedures, an internal audit monitoring program, and the careful selection and training of personnel.

The consolidated financial statements have been examined by Arthur Andersen & Co., independent public accountants. The purpose of their examination is to render an objective, independent opinion on the Company's financial statements.

The Audit Committee of the board of directors is composed solely of directors who are not officers or employees of the Company. This Committee reviews, among other matters, the financial statements of the Company, the results of audit examinations, the Company's financial policies and internal and external audit plans. Meetings are held with the Company's independent public accountants, representatives of management and the internal auditors to review the activities of each. Both the independent public accountants and the internal auditors have full and free access to meet with the Audit Committee without management representatives present to discuss matters relating to the adequacy of internal accounting controls and the results of their audit examinations. The Committee also reviews nonaudit services of the Company's independent public accountants to ensure that such services do not impair their independence.

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Financial Statements

Consolidated Income

	1985	1984	1983
	(In thousands except per share data)		
Net Revenues			
Services	\$3 465 192	\$3 997 748	\$4 145 272
Sales	1 316 198	1 429 945	1 365 472
Equity in income (losses) of joint venture operations	(2 695)	18 026	11 434
Total net revenues	<u>4 778 695</u>	<u>5 445 719</u>	<u>5 522 178</u>
Operating Costs and Expenses			
Services	3 419 761	3 652 561	3 786 769
Sales	1 063 346	1 067 660	1 027 123
General and administrative	206 515	227 608	207 280
Total operating costs and expenses	<u>4 689 622</u>	<u>4 947 829</u>	<u>5 021 172</u>
Operating income (Note 5)	89 073	497 890	501 006
Interest expense	(105 876)	(138 047)	(132 050)
Interest income	114 731	133 652	112 836
Other nonoperating income net	16 805	37 066	13 684
Provision for income taxes (Notes 5 and 15)	(113 834)	(240 004)	(220 446)
Net income of unconsolidated insurance subsidiaries (Note 17)	36 152	41 585	43 887
Minority interest in net income of consolidated subsidiaries	<u>(8 315)</u>	<u>(2 547)</u>	<u>(4 079)</u>
Income Before Extraordinary Items	28 736	329 595	314 838
Extraordinary items net of income taxes (Note 6)	<u>(368 012)</u>	<u>—</u>	<u>(39 023)</u>
Net Income (Loss)	<u>\$ (339 276)</u>	<u>\$ 329 595</u>	<u>\$ 275 815</u>
Income Per Share Before Extraordinary Items	\$ 27	\$ 2 87	\$ 2 66
Net Income (Loss) Per Share	(3 12)	2 87	2 33
Average Common Shares Outstanding	108 647	114 855	118 250

Consolidated Retained Earnings

	1985	1984	1983
	(In thousands)		
Balance beginning of year	\$3 299 542	\$3 176 428	\$3 095 714
Add Net income (loss)	<u>(339 276)</u>	<u>329 595</u>	<u>275 815</u>
	2 960 266	3 506 023	3 371 529
Deduct Cash dividends paid (\$1 80 \$1 80 and \$1 65 a share respectively)	<u>195 561</u>	<u>206 481</u>	<u>195 101</u>
Balance end of year	<u>\$2 764 705</u>	<u>\$3 299 542</u>	<u>\$3 176 428</u>

See statement of accounting policies and notes to financial statements

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Consolidated Balance Sheet December 31

	1985	1984
	(In thousands)	
Assets		
Current Assets		
Cash	\$ 516 309	\$ 297 625
Marketable securities	106 423	749 004
Notes and accounts receivable (Note 1)	1 009 725	1 198 733
Unbilled work on uncompleted contracts (Note 1)	63 281	89 130
Refundable Federal income taxes (Notes 6 and 15)	234 004	—
Inventories (Note 5)	473 540	496 543
Total current assets	<u>2 403 282</u>	<u>2 831 035</u>
Advances to and Receivables from Joint Ventures	<u>144 366</u>	<u>147 780</u>
Equity in and Advances to Related Companies (Notes 2 and 17)		
Insurance subsidiaries	278 314	269 932
Other companies	146 103	138 745
Total equity in and advances to related companies	<u>424 417</u>	<u>408 677</u>
Property Plant and Equipment at cost (Note 4)	3 882 303	4 106 070
Less accumulated depreciation	2 310 523	2 245 401
Net property plant and equipment	<u>1 571 780</u>	<u>1 860 669</u>
Other Assets	<u>118 118</u>	<u>104 141</u>
	<u>\$4 661 963</u>	<u>\$5 352 302</u>
Liabilities and Shareholders Equity		
Current Liabilities		
Accounts payable	\$ 264 571	\$ 295 390
Advance billings on uncompleted contracts	83 915	157 074
Short term notes payable and current maturities of long term debt (Note 7)	168 974	181 668
Contributions payable to employees benefit funds (Note 12)	39 118	52 724
Federal state and foreign income taxes (Note 15)	152 873	153 397
Other current liabilities	435 343	415 970
Total current liabilities	<u>1 144 794</u>	<u>1 256 223</u>
Deferred Income Taxes (Notes 15 and 17)	<u>197 460</u>	<u>213 497</u>
Long term Debt (Less current maturities (Note 7))	<u>447 652</u>	<u>480 155</u>
Minority Interest in Consolidated Subsidiaries	<u>14 203</u>	<u>18 236</u>
Contingency (Note 11)		
Shareholders Equity		
Preferred stock, no par value — authorized 5 000 000 shares none issued		
Common stock, no par value \$2.50 per share — authorized 200 000 000 shares		
issued 118 868 and 118 688 589 shares respectively (Note 10)	297 172	296 721
Paid in capital in excess of par value	121 447	112 604
Retained earnings	<u>2 764 705</u>	<u>3 299 542</u>
	<u>3 183 324</u>	<u>3 708 867</u>
Less treasury stock, 10 219 198 and 10 192 866 shares respectively at cost	<u>325 470</u>	<u>324 676</u>
Total shareholders equity	<u>2 857 854</u>	<u>3 384 191</u>
	<u>\$4 661 963</u>	<u>\$5 352 302</u>

See statement of accounting policies and notes to financial statements

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Consolidated Changes in Financial Position

	1985	1984	1983
	(In thousands)		
Funds Provided by Operations			
Income before extraordinary items	\$ 28 736	\$ 329 595	\$ 314 838
Depreciation	342 768	368 605	375 858
Nonrecurring write down of marine vessels (Note 5)	186 543	—	—
Deferred income taxes (Notes 15 and 17)	(16 037)	(13 905)	15 292
Equity in earnings of joint ventures and related companies less distributions	(26 653)	(11 615)	(16 013)
Other non cash items	58 141	39 667	57 682
Total funds provided by operations	<u>573 498</u>	<u>712 347</u>	<u>747 657</u>
Funds Used for Operations			
Acquisitions of property plant and equipment	239 062	262 448	242 805
Net property plant and equipment of businesses acquired	43 590	8 553	—
Advances to (from) joint ventures and related companies	(29 264)	(26 049)	89 961
Changes in			
Receivables and unbilled work	(214 857)	(81 089)	(237 127)
Inventories	(23 003)	(34 321)	(168 438)
Accounts payable and accrued liabilities	93 507	56 000	(18 139)
Other net	39 229	(26 236)	12 912
Total funds used for operations	<u>148 264</u>	<u>159 306</u>	<u>(78 026)</u>
Funds Used for Extraordinary Items (Note 6)			
Extraordinary loss	368 012	—	39 023
Changes in accounts payable and accrued liabilities	5 228	17 067	(32 421)
Refundable Federal income taxes (Note 15)	234 004	—	—
Other net	812	—	—
Total funds used for extraordinary items	<u>608 056</u>	<u>17 067</u>	<u>6 602</u>
Funds Used for Cash Dividends to Shareholders	<u>195 561</u>	<u>206 481</u>	<u>195 101</u>
Funds Provided by (Used for) Financing Transactions			
Changes in long term debt including current maturities			
Additions	243	1 818	18 629
Reductions	(133 785)	(129 804)	(31 818)
Additions (reductions) in short term debt net	88 345	(76 296)	106 776
Issuance (purchase) of common stock net	(317)	(319 155)	268
Total funds provided by (used for) financing transactions	<u>(45 514)</u>	<u>(523 437)</u>	<u>93 855</u>
Increase (Decrease) in Cash and Marketable Securities	<u><u>\$(423 897)</u></u>	<u><u>\$(193 944)</u></u>	<u><u>\$ 717 835</u></u>

See statement of accounting policies and notes to financial statements

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Changes in Capital Stock and Paid-in Capital

	Common Stock		Paid in Capital in Excess of Par Value
	Shares	Amount	
	(Dollars in thousands)		
Balance December 31 1982	118 250 527	\$295 626	\$ 95 367
Shares issued to employees under restricted stock plan (Note 10)	279 747	700	8 583
Other	—	—	(97)
Balance December 31 1983	118 530 274	296 326	103 853
Shares issued to employees under restricted stock plan (Note 10)	158 315	395	8 751
Balance December 31 1984	118 688 589	296 721	112 604
Shares issued to employees under restricted stock plan (Note 10)	180 112	451	8 843
Balance December 31 1985	<u>118 868 701</u>	<u>\$297 172</u>	<u>\$121 447</u>

See statement of accounting policies and notes to financial statements

Statement of Accounting Policies

Principles of Consolidation The consolidated financial statements include the accounts of the Company and all subsidiaries except insurance subsidiaries. All significant intercompany accounts and transactions are eliminated. Insurance subsidiaries and 20-50% owned companies are reported on the equity basis.

Marketable Securities Equity securities are valued at cost which approximates market value. Non equity securities consisting primarily of U.S. government obligations, corporate short term notes and tax exempt securities are valued at cost plus accrued interest which approximates market value.

Inventory Valuation Inventories are stated at cost which is not in excess of market. Cost represents invoice or production cost for new items and original cost less allowance for condition for used material returned to stock. Production cost includes material, labor and manufacturing overhead. Substantially all sales items (including related work in process and raw materials) except those owned by the Company's foreign subsidiaries are valued on a last in first out (LIFO) basis. Inventories of sales items owned by foreign subsidiaries and inventories of operating supplies and parts are generally valued at average cost.

Depreciation and Maintenance Fixed assets are depreciated over the estimated service lives of the respective classes of assets. The straight line method is used for approximately 90% of the assets while a declining balance method is used for approximately 10%. Actual or estimated expenditures for maintenance and repairs are charged currently to costs and expenses. Expenditures for renewals and betterments are generally capitalized. Accumulated depreciation for property retired or otherwise disposed of is removed from the accumulated depreciation account with any gain or loss included in income.

Deferred Income Taxes and Tax Credits Deferred income taxes are provided on timing differences between financial and tax reporting. Tax credits are included as reductions of current income tax expense.

Construction Contracts As construction contracts may extend over a period of years, the Company reports income from such contracts on a percentage of completion method of accounting. All known or anticipated losses on construction contracts are provided for currently. Claims for additional compensation are recognized during the period such claims are resolved.

Income (Loss) Per Share Income (loss) per share amounts are based upon the weighted average number of common shares outstanding during each year.

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Notes to Financial Statements

1 Engineering/Construction Contracts Notes and accounts receivable at December 31 1985 include \$19 869 000 (\$25 397 000 at December 31 1984) not currently collectible from customers in accordance with applicable retainage provisions of engineering/construction contracts. Of the December 31 1985 amount about \$16 701 000 is expected to be collected during 1986 and the remainder is due in subsequent years.

Unbilled work on uncompleted contracts generally represents work currently billable and such work is usually billed during normal billing processes in the next month.

2 Related Companies Undistributed earnings of unconsolidated subsidiaries and 20-50% owned companies included in consolidated retained earnings at December 31 1985 1984 and 1983 were as follows:

	1985	1984	1983
	(In thousands)		
Unconsolidated subsidiaries	\$222 054	\$202 820	\$191 585
20-50% owned companies	45 150	48 498	26 620

Undistributed earnings of \$22 850 000 were restricted as to payment of dividends from unconsolidated subsidiaries at December 31 1985.

Purchases from unconsolidated companies 50% or more owned were approximately \$41 269 000 \$43 947 000 and \$67 578 000 during the years 1985 1984 and 1983 respectively. Included in such purchases are payments of premiums for employees group insurance a portion of which was deducted from employees wage payments.

3 Inventories Consolidated inventories at December 31 1985 and 1984 consisted of the following:

	1985	1984
	(In thousands)	
Sales items	\$173 392	\$181 650
Supplies and parts	181 334	177 784
Work in process	50 227	58 962
Raw materials	68 587	73 147
Total	<u>\$473 540</u>	<u>\$491 543</u>

Substantially all sales items (including related work in process and raw materials) except those owned by the Company's foreign subsidiaries are valued using the last-in first-out (LIFO) method. If the average cost method had been in use for inventories on the LIFO basis total inventories would have been about \$69 888 000 and \$71 697 000 higher than reported at December 31 1985 and 1984 respectively.

4 Property Plant and Equipment Major classes of fixed assets at December 31 1985 and 1984 were as follows:

	1985	1984
	(In thousands)	
Land	\$ 54 072	\$ 54 522
Buildings	416 855	409 234
Machinery and equipment	3 083 556	3 326 025
Other	327 820	316 289
Total	<u>\$3 882 303</u>	<u>\$4 106 070</u>

Contractual obligations for construction and purchase of facilities and equipment at December 31 1985 amounted to approximately \$117 000 000.

5 Write down of Marine Assets Amounts reported for the year 1985 include a nonrecurring marine charge of \$257 830 000. This charge was made in the second quarter to recognize a significant reduction in the economic value of offshore equipment and other marine investments. Tax benefits relating to this charge have reduced the 1985 provision for income taxes \$62 822 000. Excluding this charge operating income was \$346 903 000 income before extraordinary item was \$223 744 000 and income per share before extraordinary item was \$2.06.

6 Extraordinary Items The Company and its wholly owned subsidiary Brown & Root Inc. (Brown & Root) reached final settlements in December 1985 relating to litigation with four owners of the South Texas Nuclear Project (STNP) Houston Lighting and Power Company Central Power and Light Company the City of Austin and the City of San Antonio.

The settlements were funded through the purchase of annuity contracts for two of the owners and by cash payments to the other two owners. The aggregate amount paid by Brown & Root was \$578 180 000 and was deductible for tax purposes in 1985.

In June 1985 the Company provided for the estimated cost of the STNP litigation through a special charge against income of \$60 429 000 (\$328 012 000 net of related tax benefits of \$279 417 000) representing the present value of the contemplated settlement payments totaling \$750 000 000 without interest over seven years and other related expenses. The tax benefits recognized were based on the U.S. tax rate of 46% with the tax deductions being taken over the seven year period. As a result of the 1985 funding the realization of \$40 000 000 of previously recognized tax benefits is not assured. Therefore the net after tax special charge was increased \$40 000 000 to \$368 012 000 in December 1985. These tax benefits consisting of foreign tax credit carryforwards resulting from the current tax deductibility of this funding will be recognized if and when they are realized in future periods.

The litigation instituted in December 1981 related to a 1972 contract under which Brown & Root was from 1972 to

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1981 designing engineering and constructing a two unit nuclear fueled generation plant in Matagorda County Texas

In 1983 Brown & Root recorded charges against income of \$53 617 000 (\$39 023 000 or 33 cents a share net of taxes) to provide for settlements and estimated future payments relating to marine antitrust litigation initiated against Brown & Root in 1979

7 Long Term Debt Long term debt at December 31 1985 and 1984 consisted of the following

	1985	1984
	(In thousands)	
10 2% debentures due June 1 2005 with annual sinking fund installments of \$13 300 000 commencing 1996	\$133 000	\$133 000
9 25% debentures due April 1 2000 with annual sinking fund installment of \$8 775 000 in 1992 and \$10 000 000 thereafter	88 775	88 775
16 1/2 notes due October 1 1988	150 000	150 000
14 25% notes due April 1 1985	—	100 000
13 notes with \$25 000 000 payable September 15 1986 and \$50 000 000 payable September 15 1987	75 000	100 000
7 95% debentures due December 1 1995 with annual sinking fund installments of \$842 000 in 1989 and \$2 500 000 thereafter	15 842	15 842
Other notes with varying interest rates	14 820	23 362
	<u>477 437</u>	<u>610 979</u>
Less current maturities	29 785	130 824
Total	<u>\$447 652</u>	<u>\$480 155</u>

The maturities of long term debt outstanding at December 31 1985 for the five years commencing January 1 1986 are as follows 1986 \$29 785 000 1987 \$54 142 000 1988 \$151 363 000 1989 \$1 060 000 and 1990 \$2 689 000

8 Lines of Credit The Company has arrangements with several U S banks to provide short term lines of credit totaling \$420 000 000 No borrowings were outstanding at December 31 1985 under any of these credit facilities

9 Lease Information At December 31 1985 the Company was obligated under noncancelable operating leases expiring on various dates to 2040 principally for the use of land offices and field facilities Aggregate rentals charged to operations for such leases totaled \$36 432 000 in 1985 \$30 906 000 in 1984 and \$37 612 000 in 1983 Future aggregate minimum rentals on noncancelable operating leases are as follows 1986 \$36 008 000 1987 \$27 394 000 1988 \$17 252 000 1989 \$13 620 000 1990 \$11 848 000 and thereafter \$90 676 000

10 Capital Stock Under the terms of the Company's career executive incentive stock plan 5 000 000 shares of the

Company's common stock were reserved for sale to officers and key employees at a purchase price not to exceed par value of \$2 50 per share Shares sold under this plan are restricted as to sale or disposition by the employee with such restrictions lapsing periodically over an extended period of time At December 31 1985 previously unissued shares of 4 317 895 (net of 620 581 shares forfeited) have been issued under the plan The fair market value of the stock on date of issuance in excess of sales price is being amortized and charged to income (with similar credits to paid in capital in excess of par value) generally over the average period during which the restrictions lapse At December 31 1985 the unamortized excess amounted to \$39 669 000 U S income tax benefits not affecting net income which relate to outstanding restricted shares are credited to paid in capital in excess of par value Common stock reserved at December 31 1985 for future issuance under the Company's career executive incentive stock plan totaled 682 105 shares At December 31 1985 the Company was authorized to purchase up to 10 000 000 common shares pursuant to a stock repurchase program announced November 21 1985

11 Foreign Currency Translation The Company considers that current operations of its foreign branches and subsidiaries are generally an extension of domestic activities thus the functional currency of its foreign operations is the U S dollar Since the functional currency of foreign operations is the same as the reporting currency translation adjustments and transaction gains or losses are recognized in consolidated income in the year of occurrence

Exchange gains (losses) recorded in 1985 1984 and 1983 were \$(19 530 000) \$(1 515 000) and \$649 000 respectively

12 Retirement Plans The Company has various retirement plans which cover a significant number of its employees Contributions to the major plans are based upon current years net income with such contributions being paid annually into employee benefit trust funds Other plans include pension plans which are being funded to operate on an actuarially sound basis The related fund assets and balance sheet accruals at December 31 1985 approximated the aggregate value of actuarially computed vested benefits and past service benefits not vested Company contributions to such plans totaled \$62 440 000 \$83 252 000 and \$61 700 000 in 1985 1984 and 1983 respectively

13 Research and Development Research and development expenses are charged to income as incurred Such charges were \$77 310 000 in 1985 \$75 097 000 in 1984 and \$70 553 000 in 1983

14 Reclassifications Certain reclassifications have been made to previously reported amounts to conform such amounts to the 1985 financial statement presentation

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15 Income Taxes The provisions (benefits) for income taxes for 1985 1984 and 1983 are summarized as follows

	1985	1984	1983
	(In thousands)		
Current income taxes			
Federal taxes	\$ 17 595	\$ 74 295	\$ 88 125
Foreign taxes	104 072	142 592	160 295
State taxes	6 138	9 680	7 028
Total	<u>127 805</u>	<u>226 567</u>	<u>255 448</u>
Deferred income taxes			
Federal taxes	(12 603)	16 826	(39 502)
Foreign and state taxes	(1 368)	(3 389)	4 500
Total	<u>(13 971)</u>	<u>13 437</u>	<u>(35 002)</u>
Total provision for income taxes	<u>\$113 834</u>	<u>\$240 004</u>	<u>\$220 446</u>

The provisions (benefits) for deferred taxes which result from timing differences between financial and tax reporting are summarized as follows

	1985	1984	1983
	(In thousands)		
Undistributed earnings of foreign subsidiaries and a domestic international sales corporation	\$ (1 274)	\$ (31 554)	\$ (18 527)
Accrual for potential liability for prior years Federal income taxes	—	17 055	—
Benefit for accrual of interest relating to prior year Federal income taxes	(9 282)	(6 820)	(2 320)
Uncompleted engineering/construction contracts	(30 543)	12 504	(15 095)
Nonrecurring write down of marine assets	(50 542)	—	—
Excess of tax over book depreciation	41 322	17 224	33 422
Other items net	<u>36 348</u>	<u>5 028</u>	<u>(32 482)</u>
Total deferred tax provisions (benefits)	<u>\$ (13 971)</u>	<u>\$ 13 437</u>	<u>\$ (35 002)</u>

The domestic and foreign components of income before income taxes income of unconsolidated insurance subsidiaries minority interest and extraordinary items were as follows

	1985	1984	1983
	(In thousands)		
Domestic	\$ 47 467	\$389 179	\$295 441
Foreign	67 266	141 382	200 035
Total	<u>\$114 733</u>	<u>\$530 561</u>	<u>\$495 476</u>

Reconciliations between actual provisions for income taxes and income taxes computed by applying the U S statutory rate to income before income taxes income of unconsolidated insurance subsidiaries minority interest and extraordinary items were as follows

	1985		1984		1983	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
	(Dollars in thousands)					
Provision computed at statutory rate	\$ 52 777	46 0%	\$244 058	46 0%	\$227 919	46 0%
Increases (reductions) in taxes resulting from						
Tax credits	(15 805)	(13 8)	(12 577)	(2 4)	(11 137)	(2 2)
Nonrecurring write down of marine assets	55 780	48 6	—	—	—	—
Accrual for potential liability for prior years income taxes	—	—	17 055	3 2	—	—
Recoupment of taxes previously provided for domestic international sales corporation	—	—	(23 228)	(4 4)	—	—
Nontaxable interest income	(7 745)	(6 7)	(9 011)	(1 7)	—	—
Accruals for taxes on undistributed earnings of foreign subsidiaries	28 016	24 4	17 637	3 3	(4 720)	(1 0)
Other items net	811	7	6 070	1 2	8 384	1 7
Total	<u>\$113 834</u>	<u>99 2%</u>	<u>\$240 004</u>	<u>45 2%</u>	<u>\$220 446</u>	<u>44 5</u>

Undistributed earnings of consolidated foreign subsidiaries amounted to approximately \$809 000 000 at December 31 1985 Deferred income taxes using the U S statutory rate (net of available foreign tax credits) have been provided on all such undistributed earnings except for approximately \$150 000 000 which the Company considers to

be permanently invested in foreign countries

Refundable income taxes of \$234 004 000 reflected in the balance sheet are attributable to the final settlement of the South Texas Nuclear Project litigation (See Note 6 on page 23)

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16 Quarterly Financial Information (Unaudited) Summarized quarterly financial information for 1985 and 1984 is as follows

	First	Second	Third	Fourth
	(In thousands except per share data)			
1985				
Net revenues	\$1 173 737	\$1 216 513	\$1 188 055	\$1 200 390
Operating income (loss)	88 684	(183 703)	82 767	101 325
Income (loss) before extraordinary item	56 360	(146 761)	62 373	56 764
Net income (loss)	56 360	(474 773)	62 373	16 764
Income (loss) per share before extraordinary item	52	(1 35)	57	53
Net income (loss) per share	52	(4 37)	57	16
Cash dividends paid per share	45	45	45	45

1984				
Net revenues	\$1 289 629	\$1 364 614	\$1 405 358	\$1 386 118
Operating income	110 949	139 836	143 941	103 164
Net income	75 698	92 789	94 612	66 496
Net income per share	64	78	83	62
Cash dividends paid per share	45	45	45	45

Excluding the nonrecurring marine charge (see Note 5 on page 23) operating income in the second quarter was \$/4 127 000 income before extraordinary item was \$48 247 000 and income per share before extraordinary item was \$ 44

17 Insurance Subsidiaries

COMBINED FINANCIAL POSITION

	1985	1984
	(In thousands)	
Assets		
Investments in fixed maturity securities at cost (market value \$483 492 000 and \$488 140 000 respectively)	\$ 494 033	\$564 441
Investments in equity securities at market value (cost \$15 465 000 and \$17 735 000 respectively)	18 676	19 621
Cash and short term investments	225 720	63 494
Mortgage loans on real estate	67 800	60 500
Policy loans	66 887	70 093
Other	145 370	131 757
Total assets	<u>\$1 018 486</u>	<u>\$909 906</u>
Liabilities and Equity		
Reserves for losses and loss adjustment expenses	\$ 541 163	\$471 937
Unearned premiums	50 389	42 821
Funds held under reinsurance contracts	42 312	59 584
Other	104 223	64 245
Halliburton Company equity adjusted for net unrealized gains of \$2 085 000 in 1985 and \$1 387 000 in 1984 on investments in equity securities	280 399	271 319
Total liabilities and equity	<u>\$1 018 486</u>	<u>\$909 906</u>

COMBINED OPERATING RESULTS

	1985	1984	1983
	(In thousands)		
Net earned premiums and agency income	\$294 684	\$ 210 227	\$188 314
Underwriting expenses	334 772	233 662	201 780
Underwriting loss	(40 088)	(23 435)	(13 466)
Investment income net of investment expenses and including realized gains	68 814	64 234	58 592
Income before income taxes	28 726	40 799	45 126
Benefit (provision) for income taxes	7 358	1 240	(722)
Net income	36 084	42 039	44 404
Parent company benefit (provision) for deferred income taxes on undistributed foreign subsidiary earnings	96	(426)	(396)
Parent company amortization of goodwill	(28)	(28)	(121)
Net income as reported in consolidation	<u>\$ 36 152</u>	<u>\$ 41 585</u>	<u>\$ 43 887</u>

The insurance subsidiaries consist of Highlands Insurance Company and its subsidiary companies and Highlands Overseas Limited Highlands Lloyds Highlands Limited Underwriters Special Risks Inc and its subsidiary

companies and Southern California Bonding Service Inc and Life Insurance Company of the Southwest and its subsidiary company

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18 Effects of Changing Prices (Unaudited)

SUPPLEMENTARY FINANCIAL DATA December 31, 1983

	As Reported in the Historical Cost Financial Statements	Adjusted for Changes in Specific Prices (Current Costs)
	(Dollars in thousands except per share data)	
Net revenues	<u>\$4 778 695</u>	<u>\$4 778 695</u>
Depreciation	342 768	453 962
Other costs of operations	4 346 854	4 416 489
Provision for income taxes	113 834	113 834
Interest expense	105 876	105 876
Other income net	<u>(159 373)</u>	<u>(159 373)</u>
	<u>4 749 959</u>	<u>4 930 788</u>
Income (loss) before extraordinary item	<u>\$ 28 736</u>	<u>\$ (152 093)</u>
Income (loss) per share before extraordinary item	<u>\$ 27</u>	<u>\$ (1 40)</u>
Effective tax rate	<u>99.2%</u>	<u>(172.2)%</u>
Purchasing power gain (loss) on net monetary items		<u>\$ (18 002)</u>
Increase (decrease) in specific prices of inventories and property plant and equipment net of increase in general price level		<u>\$ (206 284)</u>
Inventories	<u>\$ 473 540</u>	<u>\$ 535 810</u>
Net property plant and equipment	<u>1 571 780</u>	<u>2 000 079</u>

SUPPLEMENTARY COMPARISON OF SELECTED FINANCIAL DATA in average 1985 dollars

	1985	1984	1983	1982	1981
	(Dollars in millions except per share data)				
Net revenues	<u>\$4 779</u>	<u>\$5 640</u>	<u>\$5 963</u>	<u>\$8 088</u>	<u>\$10 064</u>
Income (loss) before extraordinary items	(152)	126	133	319	525
Income (loss) per share before extraordinary items	(1 40)	1 10	1 13	2 70	4 45
Net assets	<u>3 295</u>	<u>4 233</u>	<u>4 593</u>	<u>4 756</u>	<u>4 898</u>
Increase (decrease) in specific prices of inventories and property plant and equipment net of increase in general price level	(206)	69	(45)	(227)	367
Purchasing power gain (loss) on net monetary items	(18)	(22)	(13)	8	13
Cash dividends paid per share	1 80	1 86	1 78	1 78	1 53
Market price per common share at year end	<u>27 06</u>	<u>29 23</u>	<u>42 86</u>	<u>38 98</u>	<u>59 66</u>
Average consumer price index	<u>322.2</u>	<u>311.1</u>	<u>298.4</u>	<u>289.1</u>	<u>272.4</u>

The preceding supplementary financial data has been prepared and presented to reflect adjustment for changes in specific prices (current cost). This data is intended to help explain the impact of inflation on the Company's business. However, the Company believes that such data should be used with care because inflation accounting is still in an experimental stage and the data as reported neither completely nor accurately portrays inflation's effect.

The effects of changing prices were measured only on inventories, property plant and equipment, cost of prod-

ucts sold and services rendered, and depreciation expense. No adjustments were made to other balance sheet and income statement items.

The supplementary current cost data has been adjusted for the changes in specific prices. Current cost of inventory items that are purchased has been estimated primarily by using current prices. Current costs of manufactured inventory items and oil field service equipment have been estimated by using current prices of purchased materials and current direct labor and manufacturing burden rates. Cur-

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rent manufacturing burden rates were restated to give effect to depreciation on a current cost basis. The estimated current cost of buildings including manufacturing marine fabricating engineering and administrative facilities has been developed generally by using an estimated current construction cost per square foot where each major facility is situated. Current costs for manufacturing construction automotive and other equipment have been estimated by using current prices for major items and by applying wholesale and other price indexes to historical cost of other items. Operating costs and expenses have been

restated using average current cost levels throughout the year for the effects of inventories and of plant and equipment being estimated on a current cost basis.

The caption purchasing power gain (loss) on net monetary items shows the net effect of inflationary value changes on those Company assets and liabilities carried on the balance sheet at fixed or determinable monetary settlement amounts. As the general purchasing power of the dollar declines during inflationary periods holders of net monetary assets sustain a loss while holders of net monetary liabilities experience a benefit.

19 Business Segment Information

SEGMENT OPERATIONS

Oil field services and products
Industrial engineering construction services
Marine engineering construction services
Consolidated total

Net Revenues			Operating Income		
1985	1984	1983	1985	1984	1983
(In thousands)					
\$2 925 074	\$3 176 339	\$2 867 567	\$335 335	\$478 558	\$402 001
1 311 357	1 574 792	1 824 806	26 712	8 299	42 205
542 264	695 088	829 805	(272 974)	11 033	56 800
<u>\$4 778 695</u>	<u>\$5 445 719</u>	<u>\$5 522 178</u>	<u>\$ 89 073</u>	<u>\$497 890</u>	<u>\$501 006</u>

Oil field services and products
Industrial engineering construction services
Marine engineering construction services
General corporate
Consolidated total

Identifiable Assets		
1985	1984	1983
(In thousands)		
\$2 533 444	\$2 640 031	\$2 808 994
379 849	395 069	389 821
549 805	888 951	1 065 460
1 198 865	1 428 251	1 569 519
<u>\$4 661 963</u>	<u>\$5 352 302</u>	<u>\$5 833 794</u>

Oil field services and products
Industrial engineering construction services
Marine engineering construction services
Consolidated total

Capital Expenditures			Depreciation		
1985	1984	1983	1985	1984	1983
(In thousands)					
\$ 198 672	\$ 133 962	\$ 125 984	\$271 078	\$279 342	\$283 957
20 328	25 775	15 075	21 112	23 802	24 247
20 062	102 761	101 746	50 578	65 461	67 654
<u>\$ 239 062</u>	<u>\$ 262 448</u>	<u>\$ 242 805</u>	<u>\$342 768</u>	<u>\$368 605</u>	<u>\$375 858</u>

GEOGRAPHIC OPERATIONS

United States
Europe
Other foreign areas
Consolidated total

Net Revenues			Operating Income		
1985	1984	1983	1985	1984	1983
(In thousands)					
\$3 378 829	\$3 857 799	\$3 845 992	\$ 30 386	\$343 501	\$288 783
472 092	549 277	523 889	(59 646)	80 837	92 446
927 774	1 038 643	1 152 297	118 333	73 552	119 777
<u>\$4 778 695</u>	<u>\$5 445 719</u>	<u>\$5 522 178</u>	<u>\$ 89 073</u>	<u>\$497 890</u>	<u>\$501 006</u>

United States
Europe
Other foreign areas
General corporate
Consolidated total

Identifiable Assets		
1985	1984	1983
(In thousands)		
\$2 307 502	\$2 385 344	\$2 518 238
322 322	517 558	512 795
833 274	1 021 149	1 233 242
1 198 865	1 428 251	1 569 519
<u>\$4 661 963</u>	<u>\$5 352 302</u>	<u>\$5 833 794</u>

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See Company Profile on inside front cover for a description of business segments

Nonrecurring write down of marine assets reduced operating income from marine engineering/construction activities \$257,830,000 in 1985 (See Note 5 on page 23)

The Company's equity in income of joint venture operations is included in net revenues and operating income of each applicable segment

General corporate expenses of \$14,976,000 for 1985, \$16,090,000 for 1984 and \$12,768,000 for 1983 were allocated to business segments. General corporate assets (including

\$304,421,000 located outside the United States at December 31, 1985) are principally cash, refundable Federal income taxes and equity in and advances to unconsolidated companies.

Segment information relating to sales or transfers between business segments, intercompany sales or transfers between geographic areas, equity in net income and in net assets of unconsolidated companies whose operations are vertically integrated, export sales to unaffiliated companies, and information about major customers are not reflected herein because such items are immaterial.

Auditors' Report

To the Shareholders and Board of Directors
Halliburton Company

We have examined the consolidated balance sheet of Halliburton Company (a Delaware corporation) and subsidiary companies as of December 31, 1985 and 1984 and the related statements of consolidated income, consolidated retained earnings, consolidated changes in financial position, and changes in capital stock and paid in capital for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our auditors' report dated February 4, 1986, our opinion on the 1984 and 1983 consolidated financial statements was subject to the effect of such adjustments, if any, as might have been required had the outcome of the South Texas Nuclear Project litigation been known. As explained in Note 6, in December 1985, the Company settled the South Texas Nuclear Project litigation. Accordingly, our present opinion on the 1984 and 1983 consolidated financial statements, as presented herein, is unqualified.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Halliburton Company and subsidiary companies as of December 31, 1985 and 1984 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO

Dallas, Texas
February 5, 1986

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Ten Year Financial Summary

	1985	1984	1983
Operating Results			
Net revenues			
Oil field services	\$1 612 584	\$ 1 815 983	\$ 1 576 171
Oil field products	1 312 490	1 360 356	1 291 396
Total oil field services and products	2 925 074	3 176 339	2 867 567
Industrial engineering/construction services	1 311 357	1 574 292	1 824 806
Marine engineering/construction services	542 264	695 088	829 805
Total Net Revenues	4 778 695	5 445 719	5 522 178
Operating income			
Oil field services and products	335 335	478 558	402 001
Industrial engineering/construction services	26 712	8 299	42 205
Marine engineering/construction services	(15 144)	11 033	56 800
Total Operating Income	346 903 *	497 890	501 006
Nonoperating income (expense) net	25 660	32 671	(5 530)
Provision for income taxes	(176 656)*	(240 004)	(220 446)
Net income of unconsolidated insurance subsidiaries	36 152	41 585	43 887
Minority interest in net income of consolidated subsidiaries	(8 315)	(2 547)	(4 079)
Income Before Nonrecurring Marine Charge and Extraordinary Items	223 744	329 595	314 838
Nonrecurring marine charge net of income taxes	(195 008)	—	—
Income Before Extraordinary Items	28 736	329 595	314 838
Extraordinary items net of income taxes	(368 012)	—	(39 023)
Net Income (Loss)	(339 276)	329 595	275 815
Percent of net income (loss) to revenues	(7 1)%	6 1%	5 0%
Income per share before nonrecurring marine charge and extraordinary items adjusted for stock splits	2 06	2 87	2 66
Income per share before extraordinary items adjusted for stock splits	27	2 87	2 66
Net income (loss) per share adjusted for stock splits	(3 12)	2 87	2 33
Cash dividends per share adjusted for stock splits	1 80	1 80	1 65
Percent of net income (loss) to average equity of shareholders	(10 9)%	9 3%	7 8%
Financial Position			
Current assets	\$2 403 282	\$ 2 831 035	\$ 3 140 389
Current liabilities	1 144 794	1 256 223	1 283 483
Working Capital	1 258 488	1 574 812	1 856 906
Property plant and equipment net	1 571 780	1 860 669	2 087 488
Other assets less other liabilities	475 238	428 865	357 377
Net Assets	3 305 506	3 864 346	4 301 771
Long term debt	447 652	480 155	730 244
Shareholders Equity	2 857 854	3 384 191	3 571 527
Book value per share adjusted for stock splits	26 30	31 19	30 18
Average common shares outstanding adjusted for stock splits	108 647	114 855	118 250
Other Financial Data			
Long term borrowings net of reductions	\$ (32 503)	\$ (250 089)	\$ (15 041)
Issuance (purchase) of common stock net	(317)	(319 155)	268
Acquisitions of property plant and equipment	239 062	262 448	242 805
Net property plant and equipment of businesses acquired	43 590	8 553	—
Depreciation and net book value of fixed assets retired	384 027	396 214	419 783
Payroll and employee benefits	2 175 547	2 316 018	2 381 227
Number of employees	64 955	67 540	73 165

*Excludes nonrecurring marine charge (see Note 5 to the financial statements on page 23)

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1982	1981	1980	1979	1978	1977	1976
(In thousands except per share data and number of employees)						
\$ 2 075 085	\$ 2 115 320	\$ 1 589 871	\$ 1 101 710	\$ 888 987	\$ 720 337	\$ 565 613
1 770 991	1 964 729	1 485 596	1 072 933	852 324	682 491	548 248
3 846 076	4 070 049	3 075 467	2 174 643	1 741 311	1 402 828	1 113 861
2 274 042	2 892 530	2 701 265	2 900 481	2 472 112	1 958 637	1 859 346
1 137 173	1 545 554	1 313 275	1 101 500	1 037 370	1 049 660	1 014 852
7 257 291	8 508 133	7 090 007	6 176 624	5 250 793	4 411 125	3 988 059
786 544	997 099	710 239	428 360	385 888	329 251	262 944
35 357	60 316	48 167	76 293	112 772	71 180	72 069
34 576	123 415	95 434	90 919	160 781	217 517	210 636
856 477	1 180 830	853 840	595 572	659 441	617 948	545 649
(53 338)	(69 215)	(31 551)	16 651	25 845	11 061	(7 728)
(325 333)	(465 548)	(347 624)	(256 543)	(306 295)	(287 366)	(244 405)
39 287	33 506	26 285	22 359	19 171	15 178	12 281
(5 445)	(5 305)	(652)	(640)	(1 124)	(1 715)	(317)
511 648	674 268	500 298	377 399	397 038	355 106	305 480
—	—	—	—	—	—	—
511 648	674 268	500 298	377 399	397 038	355 106	305 480
(14 803)	—	—	—	—	—	—
496 845	674 268	500 298	377 399	397 038	355 106	305 480
6 8%	7 9 %	7 1%	6 1%	7 6%	8 1%	7 7%
4 34	5 72	4 25	3 21	3 38	3 03	2 61
4 34	5 72	4 25	3 21	3 38	3 03	2 61
4 21	5 72	4 25	3 21	3 38	3 03	2 61
1 60	1 30	1 05	92	75	55	40
14 9%	23 4	20 6%	17 9%	22 0%	23 6%	24 9%
\$ 2 828 119	\$ 2 890 713	\$ 2 490 409	\$ 2 067 324	\$ 1 804 447	\$ 1 791 905	\$ 1 423 883
1 124 295	1 491 580	1 360 001	1 163 118	864 070	842 140	706 149
1 703 824	1 399 133	1 140 408	904 206	940 377	949 765	717 734
2 264 466	2 181 941	1 821 897	1 564 270	1 322 975	1 027 564	948 945
259 080	327 621	256 511	72 818	(2 277)	(17 195)	10 860
4 227 370	3 908 695	3 218 816	2 541 294	2 261 075	1 960 134	1 677 539
745 285	741 578	583 723	290 512	285 247	298 851	311 926
3 482 085	3 167 117	2 635 093	2 250 782	1 975 828	1 661 283	1 365 613
29 49	26 85	22 39	19 14	16 82	14 16	11 66
118 068	117 839	117 698	117 615	117 486	117 269	117 143
\$ 3 707	\$ 157 857	\$ 293 211	\$ 5 265	\$ (13 604)	\$ (13 075)	\$ (6 252)
88	77	(245)	(495)	(330)	(74)	(996)
488 305	697 063	545 584	490 171	393 847	273 382	314 943
—	156	1 974	958	118 862	6 285	—
405 780	336 722	289 931	249 834	217 298	201 048	177 088
2 830 077	3 146 813	2 837 440	2 597 107	2 090 647	1 734 467	1 509 144
83 748	109 268	114 968	112 146	110 389	87 853	83 891

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Management

Board of Directors

Anne L. Armstrong (1977)
Chairman of the President's Foreign Intelligence Advisory Board; adviser to educational institutions; director of several corporations; former Ambassador to Great Britain
Armstrong, Texas

T. Louis Austin Jr. (1983)
President and Chief Executive Officer of Brown & Root, Inc.
Houston, Texas

Alex E. Barron (1974)
Vice Chairman of Canadian General Investments Limited; director of several corporations
Toronto, Canada

Edwin L. Cox (1979)
Oil and Gas Producer
Dallas, Texas

Thomas H. Cruikshank (1977)
President and Chief Executive Officer of Halliburton Company
Dallas, Texas

James W. Glanville (1977)
General Partner of Lazard Frères & Co.
New York, New York

Guy T. McBride Jr. (1972)
President, Ementius, Colorado School of Mines
Golden, Colorado

The Rt. Hon. Lord Polwarth (1974)
Director of Bank of Scotland; director of several corporations
Edinburgh, Scotland

B. G. Taylor (1981)
Executive Vice President — Oil Field Services of Halliburton Company; Chairman and Chief Executive Officer of Halliburton Services Division
Dallas, Texas

E. L. Williamson (1981)
Chairman and Chief Executive Officer of The Louisiana Land and Exploration Company
New Orleans, Louisiana

Member of Compensation and Audit Committees

Date indicates year of election to the board of directors

Executive Committee

T. Louis Austin Jr.
President and Chief Executive Officer of Brown & Root, Inc.
Houston, Texas

Thomas H. Cruikshank
President and Chief Executive Officer of Halliburton Company
Dallas, Texas

J. A. Dunlop
President of Halliburton Services Division
Duncan, Oklahoma

Jack W. Miller
Senior Vice President — Finance of Halliburton Company
Dallas, Texas

B. G. Taylor
Executive Vice President — Oil Field Services of Halliburton Company
Dallas, Texas

Purvis J. Thrash
President of Otis Engineering Corporation
Dallas, Texas

Corporate Officers

Halliburton Company
Dallas, Texas

Thomas H. Cruikshank President and Chief Executive Officer

B. G. Taylor Executive Vice President — Oil Field Services

Jack W. Miller Senior Vice President — Finance

Lester L. Coleman Vice President — Corporate Development

Stephen T. DeLaMater Vice President — Government Relations

James G. Nuland Vice President — Investor Relations

Robert M. Kennedy Secretary

Kenneth V. Jenkins Controller

C. Robert Fielder Treasurer

Principal Operating Officers

Halliburton Services Division
Duncan, Oklahoma

B. G. Taylor Chairman and Chief Executive Officer

J. A. Dunlop President

J. G. Cook Vice President — Domestic Operations

Ken R. LeSuer Vice President — International Operations

Otis Engineering Corporation
Dallas, Texas

Purvis J. Thrash President

Don Y. Fisher Executive Vice President

IMCO Services Division
Houston, Texas

George L. Jackson President

Welex Division
Houston, Texas

Dale P. Jones President

Halliburton Resource Management Division
Dallas, Texas

R. N. Killman President

Vann Systems Division
Houston, Texas

A. A. Baker President

Brown & Root, Inc.
Houston, Texas

T. Louis Austin Jr. President and

Chief Executive Officer

W. Bernard Pieper Senior Executive Vice President

Brown & Root U.S.A., Inc.
Houston, Texas

Jack T. Gossett President

Brown & Root International, Inc.
Houston, Texas

B. E. Stallworth President

NUS Corporation
Gaithersburg, Maryland

Charles F. Jones President

Highlands Insurance Company
Houston, Texas

Harold G. Duple President

Life Insurance Company of the Southwest
Dallas, Texas

Richard R. Lee President

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Corporate Information

Oil Field Services and Products

Halliburton Services Division
P.O. Box 1131
Columbia 73166

Otis Engineering Corporation
P.O. Box 31052
Houston 77231

IMCO Services Division
P.O. Box 1110
Houston 77272

Welex Division
P.O. Box 47800
Houston 77242

Halliburton Resource Management
Division
P.O. Box 1411
Dallas 75221

Vann Systems Division
P.O. Box 444J
Houston 77210

Halliburton International Inc
P.O. Box 721110
Houston 77277

Jet Research Center Inc
P.O. Box 246
Arlington 76010

FreightMaster Division
P.O. Box 4055
Fort Worth 76140

Engineering and Construction Services

Brown & Root Inc
P.O. Box 3
Houston 77001

Brown & Root U.S.A. Inc
P.O. Box 3
Houston 77001

Brown & Root International Inc
P.O. Box 3
Houston 77001

Taylor International Inc
4100 Clinton Drive
Houston 77020

Mid Valley Inc
P.O. Box 2634
Houston 77001

Brown & Root Development Inc
P.O. Box 1051
Houston 77251

NUS Corporation
910 Clopper Road
Cathetersburg Maryland 20878

Insurance Services

Highlands Insurance Company
600 Jefferson Street
Houston 77002

Life Insurance Company
of the Southwest
P.O. Box 47421
Dallas 75247

Shareholder Information

Corporate Office

3600 Lincoln Plaza
500 North Akard St
Dallas Texas 75201
(214) 978 2600

Shares Listed

New York Stock Exchange
Symbol HAL
The Stock Exchange London
Swiss Stock Exchanges at Zurich
Geneva Basel and Lausanne
The Toronto Stock Exchange

Transfer Agents and Registrars

Principal Agent
RepublicBank Dallas N.A.
Pacific at Ervay
Dallas Texas 75201

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York New York 10015

Central Trust Company
1 First Canadian Place
P.O. Box 38
Toronto Ontario M5X 1G4

Form 10 K Report

Shareholders can obtain a copy
of the Company's annual report
to the Securities and Exchange
Commission Form 10 K by
writing to

Vice President Investor Relations
Halliburton Company
3600 Lincoln Plaza
500 North Akard St
Dallas Texas 75201

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Halliburton Company

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